RECORD AND BRIEFS

No. 16-712

Supreme Court, U.S.
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In The
Supreme Court of the United States

OIL STATES ENERGY SERVICES, LLC,

Petitioner,

v.

GREENE'S ENERGY GROUP, LLC, et al.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

REPLY BRIEF FOR THE PETITIONER

C. ERIK HAWES
WILLIAM R. PETERSON
MORGAN, LEWIS & BOCKIUS LLP
1000 Louisiana Street,
Suite 4000
Houston, Texas 77002
T. 713.890.5000
F. 713.890.5001

ALLYSON N. HO
Counsel of Record
JOHN C. SULLIVAN
MORGAN, LEWIS & BOCKIUS LLP
1717 Main Street,
Suite 3200
Dallas, Texas 75201
T. 214.466.4000
F. 214.466.4001
allyson.ho@morganlewis.com

Counsel for Petitioner

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

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REPLY BRIEF FOR THE PETITIONER

The cancellation of patents through *inter partes* review "raises exceptionally important questions of constitutional law and separation of powers principles" that warrant this Court's review. See *Cascades Projection LLC* v. *Epson Am., Inc.*, Nos. 2017-1517, 2017-1518, 2017 WL 1946963, at *4 (Fed. Cir. May 11, 2017) (O'Malley, J., dissenting from denial of initial hearing *en banc*). *Inter partes* review shifts responsibility for adjudicating critical issues from Article III courts to administrative agencies—and "as the administrative state expands and non–Article III tribunals adjudicate more disputes under the cover of the public rights doctrine, there must be vigilance in protecting Article III jurisdiction." *Id.* at *14 (Reyna, J., dissenting from denial of initial hearing *en banc*).

The Federal Circuit, sitting *en banc*, has now declined—over vigorous dissent—to revisit its prior panel decision holding *inter partes* review constitutional. *Ibid.* With billions of dollars in property rights at stake—not to mention an accelerating growth driver of the Nation's economy—the constitutionality of *inter partes* review is an "exceptionally important question[] of constitutional law and separation of powers" that should be definitively resolved by this Court. The Federal Circuit's position is entrenched, the issues have percolated sufficiently, and the time for this Court's review is now.

The government does not dispute that the constitutionality of *inter partes* review is a vitally important,

frequently recurring issue. Instead, the government mounts a full-throated defense of *inter partes* review on the merits—and in so doing only confirms the need for this Court's review. The government's position—that patent rights are "public rights" that can be extinguished in administrative proceedings—is both breathtakingly broad and irreconcilably in conflict with this Court's cases. See *id.* at *5-8; *12-14. At a minimum, the issue is "sufficiently debatable and exceptionally important," and warrants this Court's review. See *id.* at *3 (O'Malley, J., dissenting from denial of initial hearing *en banc*).

Contrary to the government's argument (at 16), this case is an ideal vehicle for resolving the conflict and settling the issue. The Federal Circuit has firmly staked out its position, and this Court now has the benefit of that court's analysis on both sides of the issue—i.e., the panel decision in *MCM Portfolio LLC* v. *Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015), and Judge Reyna's dissent in *Cascades*. Further percolation is both unnecessary and undesirable. The Article III issue is fully preserved and cleanly presented in this case, and the petition should be granted to resolve it.

The serious Article III and Seventh Amendment concerns raised by *inter partes* review plainly warrant this Court's review. But even if *inter partes* review were constitutional, this Court's review would still be needed to resolve the confusion evident in the Federal Circuit regarding the procedures imposed by the Board to conduct that review in the wake of this Court's decision in *Cuozzo Speed Technologies, LLC* v. *Lee*, 136

S. Ct. 2131 (2016). In that case, the government argued that the "broadest reasonable interpretation" standard is acceptable precisely because "it is possible for claim amendments to be made." Oral Argument at 29:30, *Cuozzo Speed Techs., LLC* v. *Lee*, 136 S. Ct. 2131 (2016) (No. 15446). Having gotten its cake in *Cuozzo*, the government now wants to eat it, too, by functionally foreclosing patent owners from amending. Such a result was not intended either by Congress or this Court, and certiorari should be granted for that reason, too.

I. The Constitutionality Of *Inter Partes* Review Is A Vitally Important Question That Only This Court Can Definitively Resolve.

The government does not dispute that the constitutionality of *inter partes* review is an important, frequently recurring issue not only implicating the basic framework of our government, but also significantly affecting our national economy. See Pet. at 33 (noting that, by one estimate, *inter partes* review has thus far destroyed $546 billion of the Nation's economy by invalidating patents). The Federal Circuit has already upheld *inter partes* review in *MCM Portfolio*, and since the government filed its BIO, the Federal Circuit has refused—twice—to revisit that holding *en banc*. *See People, Inc.* v. *Lee*, No. 16-2378, slip op. at 2 (Fed. Cir. May 11, 2017); *Cascades*, 2017 WL 1946963, at *1 (Dyk, J., concurring in the denial of initial rehearing *en banc*) ("*MCM* was correctly decided, and there is no need to restate *MCM's* reasoning here."). Further percolation is both undesirable and unnecessary, as no

further analysis that could possibly aid this Court is likely to be forthcoming from the Federal Circuit. This Court's review is needed now to resolve an issue of great practical and legal importance.

Perhaps recognizing as much, the government devotes the bulk of its response to vigorously defending *inter partes* review on the merits—arguing (at 8-12) that patent rights are "public rights" capable of adjudication in a non–Article III court; that the statutory creation of patent rights means that Congress can devise any scheme it wants to take them away; and that *inter partes* review is simply the latest iteration in a long line of legitimate tools that the PTO has used to reevaluate patent decisions. These merits arguments highlight the importance of the constitutional issue that only this Court can resolve.

1. Most fundamentally, the government's position rests entirely on a faulty premise—that "[p]atents are quintessential public rights." Gov't BIO at 9. To the contrary, this Court has held that a patent "confers upon the patentee an exclusive *property* in the patented invention." *Horne* v. *Dep't of Agric.*, 135 S. Ct. 2419, 2427 (2015) (emphasis added) (quoting *James* v. *Campbell*, 104 U.S. 356, 358 (1882)). This Court has also noted that "[p]rivate rights have traditionally included * * * property rights." *Spokeo, Inc.* v. *Robins*, 136 S. Ct. 1540, 1551 (2016). Under this Court's cases, then, patent rights are property rights, and property rights are private rights—not "public rights," as the government insists. See *Cascades*, 2017 WL 1946963, at *12-14 (Reyna, J., dissenting from denial of initial

hearing *en banc*); see also *id.* at *1 (Newman, J., concurring in denial of initial hearing *en banc*) ("There is, of course, a public interest in the innovation incentive of the patent law, * * * but that does not convert a private right into a public right." (citation omitted)).[1]

Regardless of the label, however, this Court has consistently held that "Congress may not 'withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, *or in equity*.'" *Stern* v. *Marshall*, 564 U.S. 462, 484 (2011) (emphasis added) (quoting *Murray's Lessee*, 59 U.S. at 284). Patent invalidation is just such a matter—and the government admits as much when, in addressing the Seventh Amendment problems with *inter partes* review, it states (at 15) that "[c]laims for annulment or cancellation of a patent * * * were traditionally brought *before courts of equity*." (emphasis added).[2]

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[1] The public versus private distinction harkens back to *Murray's Lessee* v. *Hoboken Land & Improvement Co.*, 59 U.S. (18 How.) 272, 284 (1856). This Court held that auditing a tax collector did not require Article III supervision *because it was an administrative task* in England—and in many states—*when the Constitution was written*. *Id.* at 281-82. This Court went on to note, however, that "any matter which, from its nature, is the subject of a suit at the common law, or in equity" is a private right and not capable of adjudication by an agency. *Id.* at 284.

[2] As for the Seventh Amendment concerns raised by *inter partes* review (see Pet. at 12-15), the government's primary argument (at 12-15) begs the question by assuming invalidation actions implicate "public rights" suited for agency adjudication. The government also argues (at 15) that the Seventh Amendment is not implicated because *inter partes* review provides only for the equitable relief of cancellation, but ignores that the agency's adjudication is most often triggered by a party accused of infringing

Under this Court's cases, such a matter cannot be withdrawn from Article III courts.

2. The government falls back on the argument that Congress can delegate "seemingly private right[s]" to non–Article III tribunals when the right at issue "is so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution." *Granfinanciera, S.A.* v. *Nordberg*, 492 U.S. 33, 54 (1989) (citation omitted). But that argument finds no purchase here.

First, this Court's precedent compels the conclusion that patents are more than "seemingly" private rights. See, e.g., *Brown* v. *Duchesne*, 60 U.S. 183, 197 (1856) ("[B]y the laws of the United States, the rights of a party under a patent are his private property."). Patents have been treated as common-law property rights since at least the mid-seventeenth century. See Statute of Monopolies 1623, 21 Jac. 1, c. 3 § II (Eng.); see generally Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent "Privilege" In Historical Context*, 92 CORNELL L. REV. 953 (2007) (explaining how patent rights were traditionally treated like common-law property rights).

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the patent who is then allowed to participate in the proceedings. See 35 U.S.C. § 315(b).

Second, the patent system is not a "public regulatory scheme" of the kind envisioned in *Granfinanciera*.[3] It is a system—like copyright—that rewards owners with the individual right of exclusion and a private cause of action for enforcing that right. See *Feltner* v. *Columbia Pictures Television, Inc.*, 523 U.S. 340, 348-49 (1998). Even if patents "exist only by virtue of statute," *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229 n.5 (1964), that does not determine the nature of the right. See, e.g., *Phillips* v. *Wash. Legal Found.*, 524 U.S. 156, 164 (1998) ("Because the Constitution protects rather than creates property interests, the existence of a property interest is determined by reference to 'existing rules or understandings that stem from an independent source such as state law.'" (quoting *Bd. of Regents of State Colls.* v. *Roth*, 408 U.S. 564, 577 (1972))). Were it otherwise, this Court would not have said what it did in *McCormick Harvesting Machine Co.* v. *Aultman*, 169 U.S. 606, 609 (1898)—that "[t]he only authority competent to set a patent aside * * * is vested in the courts of the United States, and not in the department which issued the patent."

The government argues that *McCormick* rests on statutory, not constitutional, grounds, but this Court's opinion includes "numerous citations and pin-citations to [this Court's] constitutional, separation of powers

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[3] *Granfinanciera* itself counsels against the government's argument. There, fraudulent conveyance actions were held to involve "private rights" (because they resembled contract suits) and thus could not be adjudicated by bankruptcy judges without a jury. 492 U.S. at 56.

authority." Michael I. Rothwell, *After* MCM, *A Second Look: Article I Invalidation Of Issued Patents For Intellectual Property Still Likely Unconstitutional After* Stern *v.* Marshall, 18 N.C. J.L. & TECH. 1, 6 (2017); *id.* at 3-12 (detailing the constitutional nature of each supporting cite used in *McCormick*). Indeed, before the Federal Circuit reversed course in *MCM Portfolio* and became the first court to characterize *McCormick* as a statutory decision, the Federal Circuit itself recognized that *McCormick* was decided on constitutional grounds. See *Patlex Corp.* v. *Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985), modified on reh'g 771 F.2d 480 (Fed. Cir. 1985) ("The Court in *McCormick* * * *, establishing on constitutional grounds that an applicant for a reissue patent need not acquiesce in any finding of invalidity or unpatentability by the reissue examiner, affirmed that an issued patent could not be set aside other than by an Article III court."). The Federal Circuit in *MCM Portfolio* did not mention—much less attempt to explain—its previous characterization of *McCormick* as a constitutional decision. At a minimum, the evident confusion over *McCormick* only confirms the need for this Court's review. See *Cascades*, 2017 WL 1946963, at *9 (Reyna, J., dissenting from denial of initial hearing *en banc*) ("*McCormick* is the law of the land. Yet, this court has twice considered *McCormick* and twice declined to follow it for two distinct but conflicting reasons.").

3. Seeking to establish a pedigree for *inter partes* review, the government (at 11-12) crafts a narrative whereby Congress began "decades" ago to allow the

PTO to fix its mistakes in a modern process more efficient for everyone. The problem with the government's narrative—aside from its irrelevance to the constitutional questions at hand—is that Congress's previous fixes were different in kind, and not just degree, from the current scheme. The reexamination process to which the government refers is one in which patent owners and examiners work together to strengthen patents, rarely invalidating claims. *Inter partes* review, however, transforms reexamination into an adversarial, litigation-like proceeding, which in turn creates Article III problems. At a minimum, there is significant uncertainty regarding the constitutionality of *inter partes* review that this Court should resolve. See, e.g., *Cascades*, 2017 WL 1946963, at *14 (Reyna, J., dissenting from denial of initial hearing *en banc*) ("The Board's cancellation of patents through *inter partes* review may be the type of agency activity that 'sap[s] the judicial power as it exists under the federal Constitution' and 'establish[es] a government of a bureaucratic character alien to our system. Or, it may not. It is a question we should address.'" (quoting *Crowell* v. *Benson*, 285 U.S. 22, 50, 57 (1932))).

II. This Court's Review Is Warranted To Address The Board's Procedures For Amendment.

Even if *inter partes* review were constitutional, this Court's review would still be needed to consider the procedures imposed by the Board for amending claims during *inter partes* review. See Pet. at 19-32.

It was the government that argued to this Court in *Cuozzo* that the "broadest reasonable interpretation" standard should apply "when it is possible for claim amendments to be made." Oral Argument at 29:30, *Cuozzo Speed Techs., LLC* v. *Lee*, 136 S. Ct. 2131 (2016) (No. 15446). As things now stand, however, amendment is practically impossible under the procedures imposed by the Board. See Pet. at 19-26. Contrary to the government's argument here (at 16-20), this is not a case where an agency has established rules that were not followed. This is a case where an agency has nullified a scheme created by Congress and relied upon by this Court.

The government argues (at 18) that "the fact that petitioner's particular amendment application was denied does not necessarily mean that patent owners lack a meaningful opportunity to amend their claims during *inter partes* review." Of course not. What confirms the lack of meaningful opportunity to amend is the fact that in thousands of *inter partes* review proceedings over a three-year period, only three opposed motions to amend succeeded. See Pet. at 23.

The government notes (at 20 n.3), as petitioner did (at 20 n.7), that the Court may wish to consider holding the petition while the Federal Circuit considers *en banc* some of the same amendment procedures at issue in the instant case. See *In re Aqua Prods., Inc.*, 833 F.3d 1335, 1336 (Fed. Cir. 2016) (per curiam). At a minimum, then, the petition should be held pending the Federal Circuit's disposition of that case.

CONCLUSION

The petition should be granted or, in the alternative, the case should be held pending further guidance from the Federal Circuit.

Respectfully submitted,

ALLYSON N. HO
Counsel of Record
JOHN C. SULLIVAN
MORGAN, LEWIS & BOCKIUS LLP
1717 Main Street, Suite 3200
Dallas, Texas 75201
T. 214.466.4000
allyson.ho@morganlewis.com

C. ERIK HAWES
WILLIAM R. PETERSON
MORGAN, LEWIS & BOCKIUS LLP
1000 Louisiana Street, Suite 4000
Houston, Texas 77002
T. 713.890.5000

Counsel for Petitioner